

Social policy challenges in Belgium

Alain Jousten

HEC-UIg, CREPP and Tax Institute

November 2011

Alain Jousten

1

Outline

- Belgium is a welfare state with a long history
- Challenges in the field of social protection abound – some are new and crisis-related, and some well-known (demographics)
- Numerous issues arise – too much for this session

I focus on a selection of big issues that are and will become increasingly challenging

Alain Jousten

2

ISSUE 1: HIGH LEVELS OF TAXATION

Alain Jousten

3

High levels of taxation : Belgium

- The level of income taxes and social contributions is high in Belgium, both in nominal and effective terms
- Belgium has extremely progressive tax system: with very high marginal tax rates kicking in at rather low levels of gross income

Alain Jousten

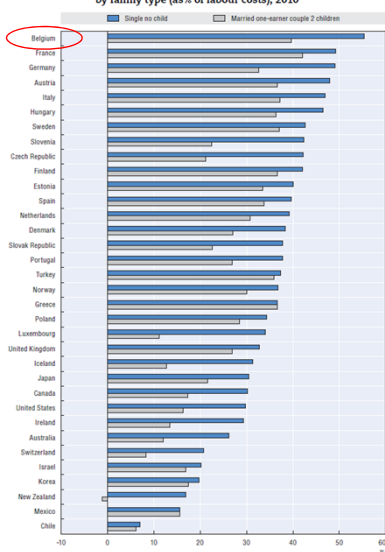
4

Net payments to government from taxes and contributions minus cash family benefits (different taxpayers)

OECD, Taxing Wages 2010

This is one frequently used concept, others exist (in-kind benefits, etc.)

Figure I.1. Income tax plus employee and employer contributions less cash benefits, by family type (as % of labour costs), 2010



Note: Corresponds to Table I.1, column 2 and 5.

StatLine <http://dx.doi.org/10.1767/888932379385>

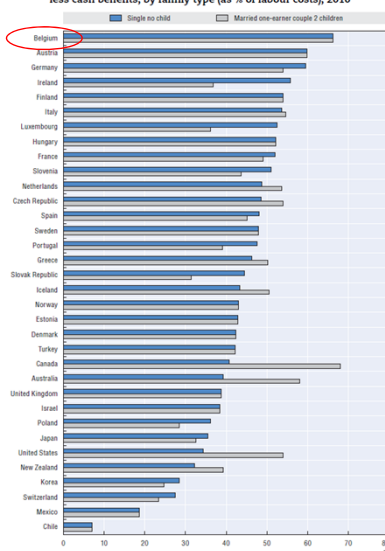
Alain Joustien

5

Marginal net payments to government from taxes and contributions minus cash benefits

OECD, Taxing Wages 2010

Figure I.6. Marginal rate of income tax plus employee and employer contributions less cash benefits, by family type (as % of labour costs), 2010

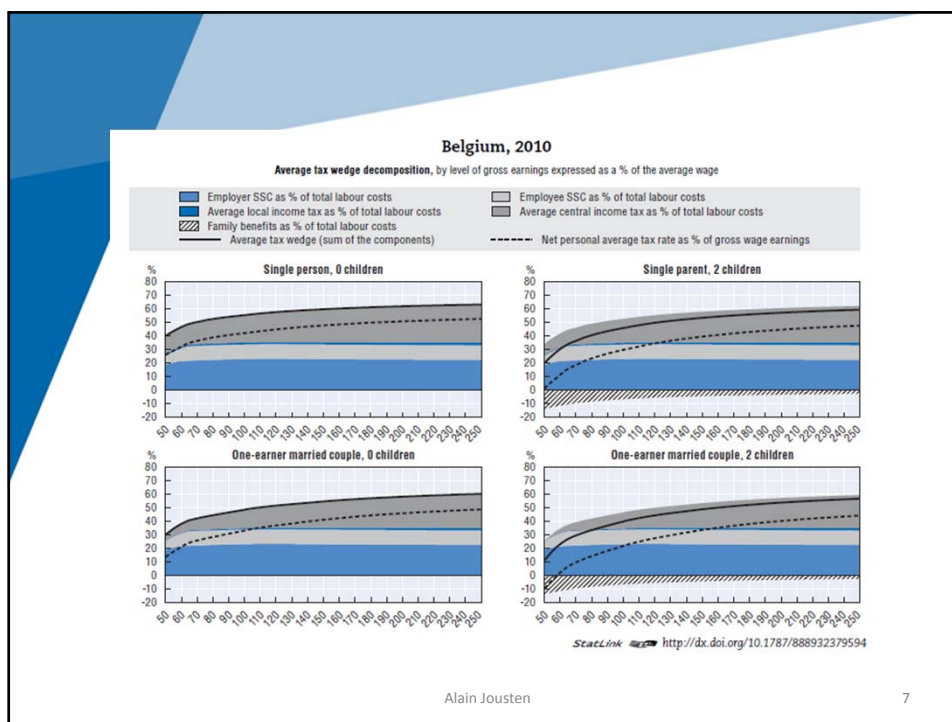


Note: Corresponds to Table I.6, column 2 and 5.

StatLine <http://dx.doi.org/10.1767/888932379480>

Alain Joustien

6



7

In sum...

1. Levels of taxation (and contribution) are top of the league
2. Severe limitations to work incentives
 - This has consequences for innovation and emigration/immigration!
 - The tale of *"higher productivity in Belgium than elsewhere"* does not help!

But it doesn't stop here, the reality is much more diverse and challenging!!

Alain Joustien

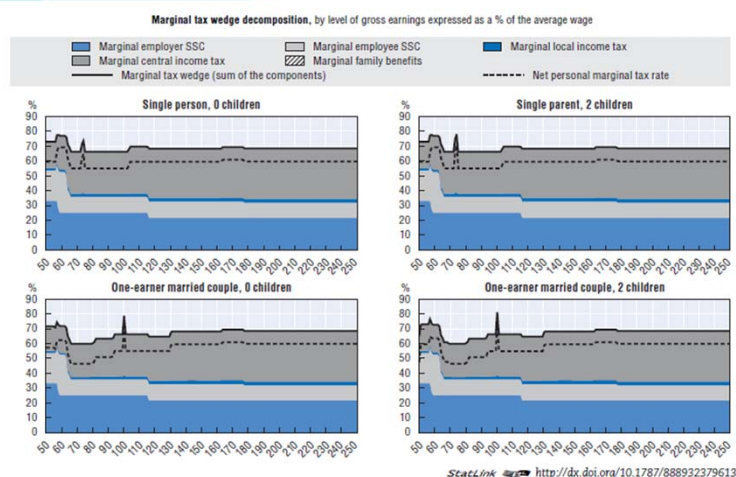
8

In sum...

3. These are “average” results, along a series of dimensions.
 - Marginal net taxes are at much higher levels.
 - Complicated tax and contribution rules combined with large differences across individuals lead to very diverse effective taxation and incentives.
 - Some may be desired, some not...
 - “Organized” optimization of the tax pressure by means of lunch vouchers, company cars, etc.
- The political room for maneuver is very limited by size and by large degree of complication of the system!

Alain Jousten

9



Alain Jousten

10

ISSUE 2: WEAK TAX-BENEFIT LINKS

Alain Jousten

11

Tax-benefit link: Belgium

- Belgium, has been shifting towards less contributory philosophy as a result of political choices
- The current social insurance system is
 - A multitude of actors and regimes, with complicated interactions
 - Numerous minima and maxima breaking the link at the contribution and benefit stage, completed by very large role of non-contributory periods
 - A budgetary management based on revenue pooling, the so-called “Global Management” by the RSZ-ONSS
 - E.g., for wage-earners, no more dedicated/earmarked contributions!
 - An increasing role for complementary financing through indirect taxation, also implemented by RSZ-ONSS
 - Complicated and – economically speaking – non-transparent allocation rule

Alain Jousten

12

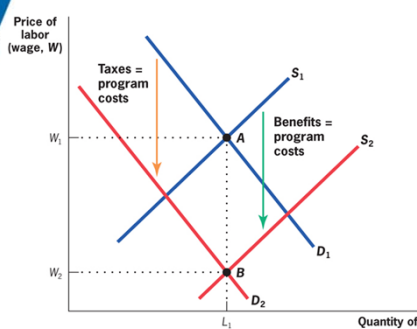
Weak tax-benefit link

- The explicit link between contributions and benefits is weak (or absent) in Belgium!
 - It is not only the size and deficit of the programs that matter, but also how financed!
 - Notions of generosity, actuarial fairness, etc.
 - Important consequences for decision-making
 - Notion of actuarial neutrality, etc.
- True at the system and the individual level – though to separate degrees.
 - Incentives for individuals to work (and contribute).
 - Incentives for managers and political decision-makers to ensure sustainability and good management.

Alain Joustien

13

The individual level



- Ideally... from the textbook
- Social insurance can attempt to link contributions and taxes in a way to eliminate work disincentives.

Alain Joustien

14

The individual level

- This logic is less theoretical than it seems
 - See the idea behind Swedish-style notional defined contribution (NDC) pension reforms
 - Restore link between income-dependent taxes and income-dependent benefits
 - It remains a Pay-as-you-go (PAYG) system, but with links between contributions and benefits
 - See also the decisions in Germany in the recent past about changing the financing of the health insurance coverage towards income independent supplements.

Alain Jousten

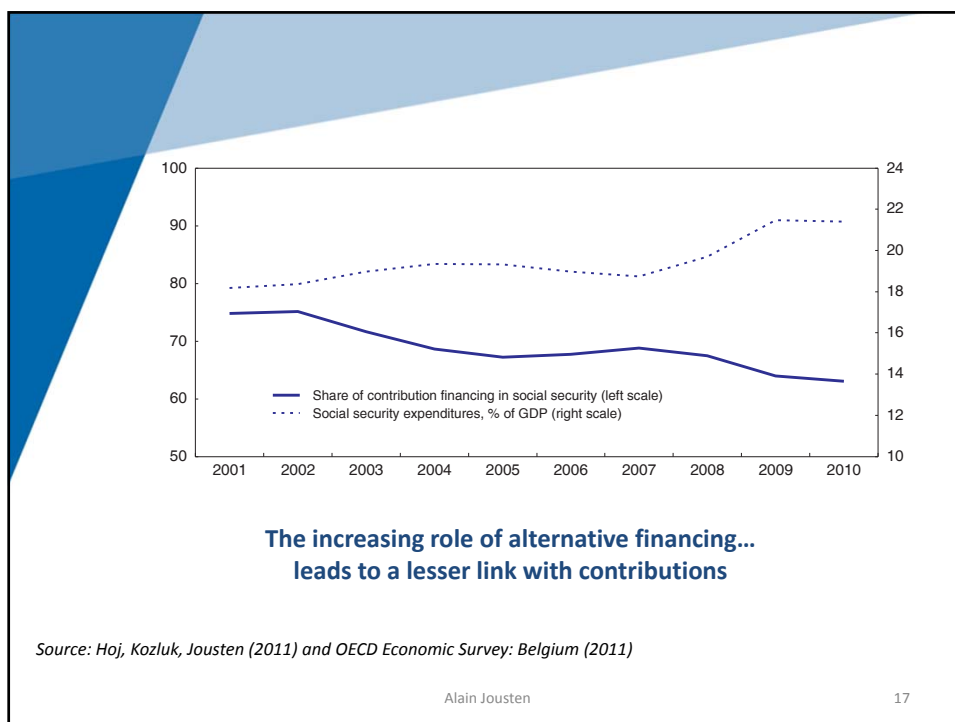
15

The system level

- None of the Belgian social insurance agencies is responsible for both incomes and expenditures
 - Essentially it is a system of spending agencies, with annually determined spending requirements that have to be met by RSZ-ONSS
- Very limited (none?) automatic stabilizers in the system as there are no explicit feedback mechanisms
 - Mostly discretionary policies possible
- Key competencies split between different actors/levels
 - Example of (early-)retirement

Alain Jousten

16



In sum...

- Increasingly problematic – requires some thought and attention
- 2 major areas
 - Labor market incentives in the short run
 - Long-term sustainability and adequacy of pensions
 - There is need for feedback mechanisms to ensure alignment between revenues and expenditures in a reformed setting
 - Explicit feedback mechanisms can give credibility to system promises – this is independent of the political choice regarding the degree of redistribution of the system (NDC, earnings points, etc)

Alain Jousten 18

ISSUE 3: THE NEED FOR A COMPREHENSIVE APPROACH

Alain Jousten

19

Social protection

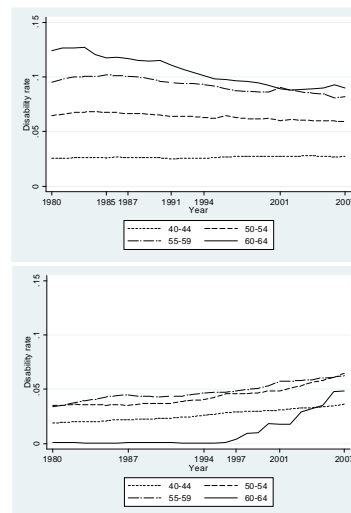
- 3 (+) regimes for self-employed, wage-earners and civil-servants
- Within each, different systems –with overlapping eligibility
- Example of early retirement and pensions
 - Special focus on disability insurance (DI)

Alain Jousten

20

Case study “DI : There is more than meets the eye” (Jousten et al, 2011)

- (Male left, Female right)
- The overall DI rate has stayed remarkably stable in Belgium, with only change in female retirement age having a bigger effect
- In BE, DI does not look like being the shock absorber (like in US, and elsewhere)

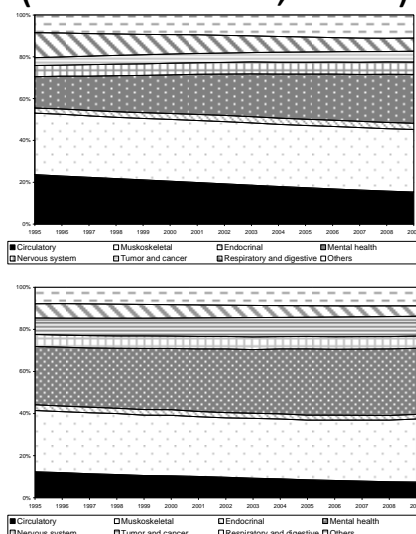


Alain Jousten

21

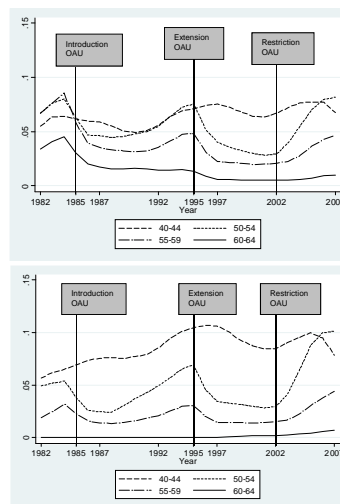
Case study DI : There is more than meets the eye (Jousten et al, 2011)

- Easy conclusion: DI is a steady, well-managed and well-screened system.
- Maybe... but you need to look closely at micro-level on DI causes to conclude



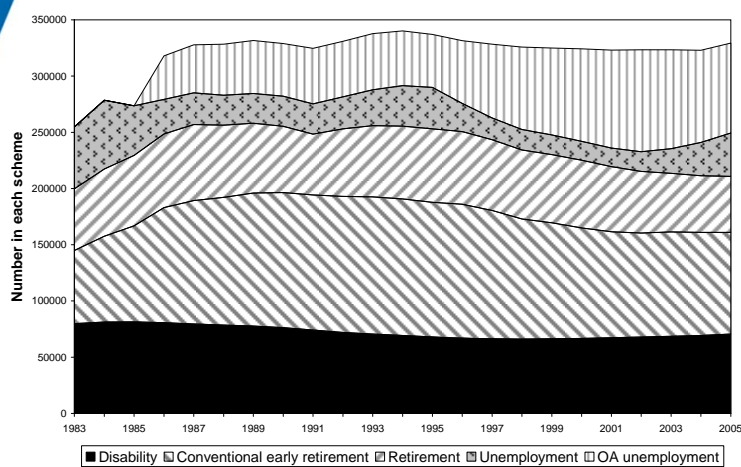
Case study DI : There is more than meets the eye (Jousten et al, 2011)

- (Male Top, Female bottom)
- Major reforms of early retirement provisions had limited effect on DI, but major effect on unemployment insurance
- Communicating vessels, e.g., missing result of “Generations Pact”!



23

Program participation 50-64, Jousten et al (2011)

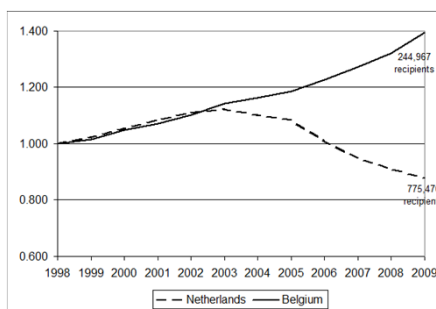


Alain Jousten

24

Moral hazard and DI: comparison (Jousten et al 2011, voxeu.org)

- Time trend (reference 1998)
- Starting point is much higher in the Netherlands
- Reforms to change incentives for DI in NL
- No significant reforms in BE
 - Most recent data from RIZIV-INAMI: the number of female beneficiaries has surpassed the number of males!



Alain Jousten

25

In sum...

- Need for comprehensive approach, not segmented!
 - Simplifying the architecture would help
- Communicating vessels, requiring a solid gate-keeping in all programs

Alain Jousten

26

CONCLUDING THOUGHTS

Alain Jousten

27

Need for...

- A selective approach, if only because of financing limits
 - Not all spending is desirable or efficient
 - Some of this public expenditure simply crowds out private provision (unemployment insurance, etc)
 - Public expenditures might generate future demand for more public expenditures
 - Multitude of social insurance agencies

Alain Jousten

28

Need for...

- Smarter system design, with automatic feedback mechanisms
 - Exploit the tax-benefit link to make the system less distortive and more sustainable/credible.
- Simplification of system architecture, to simplify job mobility and system operations – both for administrators and participants
- Comprehensive reform needed, with effective gate-keeping mechanisms

Alain Jousten

29